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November 30, 1998

Honorable Board of Supervisors
County of Orange
Santa Ana, California

Your Honorable Board:

The Comprehensive Annual Financial Report of the County of Orange, State of California, for the fiscal year ended June 30, 1998, is hereby submitted in accordance with the provisions of Sections 25250 and 25253 of the Government Code of the State of California. Responsibility for both the accuracy of the data, and the completeness and fairness of the presentation, including all disclosures, rests with the County. To the best of our knowledge and belief, the enclosed data are accurate in all material respects and are reported in a manner designed to present fairly the financial position and results of operations of the various funds and account groups of the County. All disclosures necessary to enable the reader to gain an understanding of the County's financial activities have been included.

It should be noted that the County's independent auditor had to qualify its opinion on our general purpose financial statements due to Year 2000 (Y2K) disclosure issues. As explained elsewhere, this is not because the County has given Y2K a low priority, or has made insufficient progress in implementing Y2K solutions. Rather, the qualification this year results from a technical accounting standard which applies to state and local agencies' audited financial statements when the auditor's fieldwork was not substantially completed prior to an October 31, 1998, deadline. This qualification does not reflect negatively on the County's financial statements, or indicate that the County is less prepared for Y2K than other governmental agencies who did not receive such a qualification because their auditor's report is dated before the October 31, 1998, deadline.

Copies of this Comprehensive Annual Financial Report, the County Proposed and Final Budgets, booklets specifying the tax rates and assessed valuations of taxing agencies in Orange County, and financial reports of certain funds or functions for which the County has fiduciary responsibility, may be obtained from the office of the County Auditor-Controller.

The Comprehensive Annual Financial Report is presented in three sections: Introductory, Financial, and Statistical. The Introductory Section includes this transmittal letter, the County's organizational chart and a list of principal County officials. The Financial Section includes the general purpose financial statements and the combining and individual fund and account group financial statements and schedules, as well as the independent auditor's report on the financial statements and schedules. The Statistical Section, which is unaudited, includes selected financial and demographic information.

The County of Orange is required to undergo an annual single audit in conformity with the provisions of the Single Audit Act Amendments of 1996 and the U.S. Office of Management and Budget Circular A-133, "Audits of States, Local Governments, and Non-Profit Organizations." Information related to this single audit, including the Schedule of Expenditures of Federal Awards, findings and questioned costs, and the independent auditor's report on internal control and compliance with applicable laws and regulations, are included in separate annual publications.

This report includes all funds and account groups of the County of Orange, as well as its component units. Component units are separate legal entities for which the County is considered to be financially accountable. The County provides a full range of general government services, including police protection, detention and correction, public assistance, health and sanitation, recreation, library, flood control, waste management, airport management, and general financial and administrative support.

Blended component units, although legally separate entities, are, in substance, part of the County's operations, and therefore data from these units are combined with data of the County. The County has no component units which require discrete presentation. The following entities are presented as blended component units in the General Purpose Financial Statements for the fiscal year ended June 30, 1998: the Orange County Flood Control District, Orange County Development Agency, Orange County Housing Authority, Orange County Civic Center Authority, Orange County Financing Authority, Orange County Special Financing Authority, Orange County Public Financing Authority, Orange County Public Facilities Corporation, and certain special districts.

Economic Condition and Outlook

Area Population

With a population of over 2.7 million, Orange County is one of the major metropolitan areas in California and the nation. Orange County represents the third most populous county in the state, and ranks fifth in the nation. Population growth mirrors the average for the state, approaching 2% annually.

Area Economy

Orange County represents one of the major economic centers in the state and nation. If Orange County was a nation, its economy would rank 33rd among all the countries in the world, above such countries as Greece, Israel, and the Philippines. The Anderson Center for Economic Research at Chapman University estimates its Gross County Product (GCP) at \$101 billion during 1998. For 1999, the estimated GPC is expected to increase approximately 5% to \$104.9 billion.

Orange County government has emerged from bankruptcy with a solid recovery plan in effect. Housing price appreciation has returned, with double-digit appreciation evident in certain areas of the County. The County also continues to be represented by a solid economic base in construction, non-durable goods, retail trade and services. It should be noted that a significant sector of the local economy is dependent upon international trade. Therefore, while the forecast for Orange County's economy remains bright, the current problems in the global economy (Russia, Latin America and particularly Asia) will have a dampening impact on the County's overall level of economic growth.

Unemployment Rate and Tax Base

Orange County's unemployment rate, which reflects the number of unemployed County residents as a percent of the labor force, remains one of the lowest among California counties. As of August 1998, the unemployment rate stood at 3.1%. This compares favorably to rates of 6.5% for neighboring Los Angeles County, 5.7% for California, and 4.5% for the nation.

After an extended period of a depressed real estate market, Orange County's housing sales and prices have rebounded to healthy levels. This is beginning to be reflected in the value of Orange County's tax base. Total assessed valuation increased by \$10.3 billion, or 5.7% over FY 1997-98 reaching \$192.6 billion in FY 1998-99.

Recent Industry Employment Trends and the Local Economy

Monthly wage and salary employment statistics released by the State Employment Development Department (EDD) estimate the number of jobs located in Orange County, regardless of where the employee resides. The latest wage and salary employment estimates from EDD illustrate the County's strong economic base. Total non-farm jobs in the County reached 1,277,300 in August 1998, reflecting a 4% increase over the 1,228,100 jobs in August 1997.

Since August 1997, 49,200 non-farm jobs were added in the County. Employment in the trade sector recorded gains of 11,000, led by retail trade with 6,700 jobs. Manufacturing employment was up by 10,300, led by the durable goods sector with 7,100 jobs. Employment in the services sector increased by 9,900, led by business services with 4,700 jobs. Other significant industry categories with job gains included construction (up 6,500); transportation and public utilities (up 4,800); finance, insurance and real estate (up 4,000) and government (up 2,700). Mining employment remained flat over the year.

County Median Family Income

According to the Anderson Center for Economic Research at Chapman University, Orange County's median family income is expected to increase from \$61,812 during 1998 to a figure of \$63,478 in 1999, representing an increase of 2.7%.

Bankruptcy Recovery

On December 6, 1994, the County of Orange filed for protection under Chapter 9 of the United States Bankruptcy Code as a result of substantial losses in the Orange County Investment Pool (the "Pool"). The liquidation of the Pool's portfolio resulted in the realization of an investment loss of approximately \$1.6 billion, approximately \$600 million of which was allocable (on a pro rata basis) to the County's accounts, with substantially all of the remainder allocable to accounts of non-County Pool participants, such as cities, school districts and special districts.

In response to the bankruptcy, the County prepared a comprehensive recovery plan that also addressed the County's budget deficit that resulted from its investment losses. The plan incorporated budget cuts, administrative reorganization, a settlement agreement with Pool participants, and various methods to raise funds. The County obtained State legislation consisting of Chapters 745, 746, 747 and 748 of the 1995 Statutes (the "Recovery Statutes") to provide for certain monies received from the State that would have otherwise been allocated to other County funds and other governmental agencies, to be deposited to the County's General Fund. The Recovery Statutes have subsequently been challenged by a local taxpayer. The County succeeded at having the case dismissed at the trial court level; however, an appeal is pending. The County believes it will successfully withstand this challenge.

The recovery plan, including the Modified Second Amended Plan of Adjustment (the "Plan"), provides that the legislatively redirected revenues, or other County monies in an equivalent amount, together with other County revenues will be used to satisfy the principal and interest payments on the Plan of Adjustment Certificates of Participation (the "Plan COPs") and to pay deficiencies in Class B-11, B-12 and B-13 County-Administered Account claims, as defined in the Plan. The Plan was confirmed by the United States Bankruptcy Court for the Central District of California (the "Bankruptcy Court") in its Order Confirming Modified Second Amended Plan of Adjustment entered on May 16, 1996. On June 12, 1996, the Plan became effective and the County emerged from bankruptcy.

The County's emergence from bankruptcy and proceeds of the County's Plan COPs, together with other provisions in the Plan and the proceeds of the Refunding Pension Obligation Bonds (Series 1996A), were used to cure the County's defaults under various terms of its debt obligations and to pay debt-holders, vendors, employees, certain County-Administered Accounts, and other administrative undisputed claims in total, as well as replenish debt reserves for certain outstanding certificates of participation, fund a litigation reserve, and fund a reserve to pay disputed claims if determined adversely. Proceeds remaining from the Plan COPs are expected to be sufficient should payment of these outstanding disputed claims be required. Most other remaining claims will be paid over 20 years with Available Cash as defined in the Plan of Adjustment.

Pursuant to the Plan and court order confirming the Plan, Tom Hayes has been appointed as the Litigation Representative to enforce, prosecute and collect upon all remaining Pool-related claims. Net litigation proceeds will be distributed as provided for in the Plan. In June 1996, the Orange County Litigation Fund was established and \$50 million of the proceeds from the Plan COPs were deposited in the Fund in order to fund the litigation effort. This fund is controlled by the Litigation Representative and not by the County. To date there has been extensive investigation and discovery of the events and transactions prior to the bankruptcy that have given rise to claims by the County in excess of \$2 billion. Certain of the actions brought by the County have been settled pending final court approval. Pursuant to these conditional settlements, the County and the Litigation Representative have agreed to dismiss their claims against Merrill Lynch; Le Boeuf, Lamb, Greene & MacRae LLP; KPMG Peat Marwick LLP; CS First Boston; Morgan Stanley Dean Witter; and Nomura Securities, and others. If finally approved, the settlements will result in payment by these parties to the Litigation Representative of over \$710 million and are conditioned upon, among other things, the entry by the United States District Court of certain orders limiting the ability of third parties to assert claims against settled parties. Assuming the District Court approves the parties' settlements, all distributions will be made in conformance with the distribution schedule approved by the Bankruptcy Court.

Major Initiatives for Fiscal Year 1997-98

Fiscal Year 1997-98 General Fund Budget

Total discretionary funding for the County's FY 1997-98 Final Budget was \$347.3 million, an increase of 11.9% over the FY 1996-97 Budget. This increase was due to growth in motor vehicle license fee revenues, property tax, one-time revenues resulting from prior year State and Federal program cost reimbursements, and closing reserve accounts. The County used the increased discretionary funding to increase provisions for contingencies to \$15 million and add \$24 million to the Reserve for Debt Repayment, which brought the total Reserve for Debt Repayment to \$50.8 million for the 1997-98 Final Budget. In May 1998, the Board of Supervisors used \$33.9 million of the Reserve for Debt Repayment for early debt repayment. Other uses of the discretionary funding included an amount of \$5 million set aside for a South Municipal Court Facility, increased funding for Public Safety, and investments in new technology and information systems.

Welfare Reform

On August 2, 1996, federal welfare reform legislation was passed. The existing Aid to Families with Dependent Children (AFDC) program was eliminated and replaced by the Temporary Assistance for Needy Families (TANF) program. Federal entitlement to cash assistance ended and the states now receive block grants to develop customized welfare programs within federal guidelines.

On August 11, 1997, Governor Wilson signed the California welfare reform legislation Assembly Bill 1542, entitled the California Work Opportunity and Responsibility to Kids (CalWORKS) program, which became effective January 1, 1998. The County's Social Services Agency developed a plan to implement the CalWORKS program, which was approved by the Board of Supervisors on January 6, 1998. The California Department of Social Services subsequently certified the plan.

Trial Court Funding

On January 1, 1998, the Lockyer-Isenberg Trial Court Funding Act of 1997 (Assembly Bill 233) became effective retroactive to July 1, 1997. This was landmark legislation which transferred primary funding and administrative responsibility for trial courts in all counties to the State. County fiscal responsibilities for all but facility costs were capped at a fixed amount which took the form of annual Maintenance of Effort (MOE) payments to the State. As a result, the \$23.1 million lawsuit filed by the Courts against the County under Government Code Section 68073 was resolved with a final payment to the Courts in FY 1997-98 of \$2.95 million.

Due to the second year reduced MOE schedules in Assembly Bill 233, successful appeals filed by the County as allowed under Assembly Bill 233, and subsequent legislation signed into law September 30, 1998, the original required MOE payment to the State of approximately \$102 million has been reduced to \$71.9 million in FY 1998-99. This will be reduced further beginning in FY 1999-2000 to approximately \$58.4 million.

The County remains responsible for facilities operations, but is not responsible for providing facilities for new judgeships created by the State after July 1, 1996. The major Court facility issue still being researched is the County's approach to remedying the deficiencies in the one leased and one County-owned existing South County Court facilities that the Court feels have been unacceptable for some time. A new single replacement facility is currently being considered to rectify the situation at \$32 million of County expense. In addition, under the authority of a recent State Constitutional Amendment, Proposition No. 220, approved by voters on June 2, 1998, the five Orange County Municipal Courts and the Superior Court have become a single unified Superior Court system. They have adopted a corporate management model with a single Presiding Judge, Executive Officer, Chief Financial Officer and Chief Information Officer.

Negotiations with Employee Bargaining Units

Contract negotiations with all labor organizations, except the Association of Orange County Deputy Sheriffs (AOCDS), have resulted in two-year agreements covering FY 1998-1999 and 1999-2000. The agreements provide for a 3.25% base pay increase in each year of the contract. Additionally, the agreements call for a 1% non-base building performance pay incentive in each year of the contract. The pay-out of incentives in year two of the agreements will be tied to jointly developed criteria for a Performance Management/Incentive Program (PIP) covering all employees.

The Memorandum of Understanding for the AOCDS expired in October 1997. Negotiations with this labor organization concluded in January 1998 and resulted in a two-year agreement which will expire in October 1999. This agreement provided for a 3.6% base pay increase in each year of the contract and a .2% non-base building performance incentive which will be developed by the County and the association.

The costs of salary increases have been included in the County Strategic Plan. The gross costs will be approximately \$27 million in the first year and \$22 million in the second year. The net General Fund costs of the salary increases will be approximately \$5 million and \$4 million, respectively.

Major Initiatives for the Future

Year 2000 Compliance

The County has assessed the status of Y2K compliance with respect to virtually every County department, and has developed a plan to modify or replace any non-compliant system in a manner that it believes will eliminate significant operational problems. While some systems have already been determined to be in compliance, several departmental systems are not scheduled to be completed until late 1999.

Further disclosure of the County's compliance efforts is contained in the notes to the general purpose financial statements. The County's disclosures are in full compliance with the Governmental Accounting Standards Board (GASB) Technical Bulletin (TB) No. 98-1, which requires specific disclosures about Y2K issues for financial statements with an auditor's report dated after October 31, 1998.

Retirement Rate Agreement

The County Board of Supervisors and the Orange County Employees' Retirement System (OCERS) Board signed an agreement in 1996 for the use of \$318 million in pension obligation bond proceeds. The proceeds from the bonds were placed in an investment account within OCERS, for the sole purpose of paying County annual obligations for retirement. The investment account is credited with market earnings of OCERS and debited according to a formula that considers available balance and obligations.

The County is required to pay any retirement costs not paid by the investment account. For 1997 and 1998 the County paid \$2 million and \$3 million and the investment account paid \$45 and \$41 million, respectively. For 1999, the County will contribute \$1 million in addition to a \$45 million investment account payment.

Marine Corps Air Station El Toro Closure

In 1993, the federal government slated Marine Corps Air Station El Toro ("El Toro") for closure. The 4,700 acre master jet base is located in central Orange County. On December 11, 1996, the Board certified Environmental Impact Report (EIR) 563 and, as the federally-recognized Local Redevelopment Authority, adopted a Community Reuse Plan and a Homeless Assistance Submittal for El Toro. The Board's December 11 action also called for the preparation of an Airport Master Plan, specific plan and other documents appropriate for the next stage of planning for El Toro.

In January 1997, the El Toro Reuse Planning Authority ("ETRPA") and the Taxpayers for Responsible Planning ("TRP") filed a lawsuit against the County, alleging that the EIR prepared by the County in connection with its approval of the Community Reuse Plan was legally inadequate. On October 28, 1997, the Trial Court found the EIR to be deficient on nine specific issues; on all but these nine issues the court ruled in favor of the County. The court denied the request from ETRPA and TRP that it issue an order setting aside the Community Reuse Plan, and denied their request for an injunction against the second stage of the County's reuse planning process. ETRPA and TRP appealed the trial court's judgment and the County cross-appealed. Briefing has commenced and should be completed in February 1999.

The Community Reuse Plan approved by the Board contemplates the development of a commercial passenger and cargo airport, habitat preserve, educational, recreational, commercial and a variety of other uses. The Community Reuse Plan has been submitted to the Department of the Navy for their consideration in the preparation of a disposal Environmental Impact Statement and the ultimate conveyance of base property for civilian purposes. The Marines are scheduled to vacate El Toro in 1999.

Santa Ana River Mainstem Project

The Santa Ana River Mainstem Project is a major flood control project designed to prevent the type of devastating damage caused by large-scale flooding which occurs on the average of every one hundred years in the Santa Ana River flood plain. It involves a combination of flood channel widening and reinforcement, construction of a new dam, Seven Oaks Dam, and raising of an existing dam, Prado Dam.

The Federal government, Orange County Flood Control District (OCFCD), San Bernardino County Department of Transportation/Flood Control District, and Riverside County Flood Control & Water Conservation District are cost sharing the estimated total project cost of \$1.3 billion. The OCFCD has currently estimated its share to be \$413 million for acquisition of real property rights for construction of the project, relocation of designated roads, bridges, trails, channels and utilities, and construction cost share contributions. This estimate is based on recent indication of support by the U.S. Army Corps of Engineers for the Federal government to finance approximately \$90 million of the Prado Dam real estate costs, subject to Federal appropriations to do so. The cost of the project exceeds OCFCD revenues available for facility improvements.

The project has been authorized by the State Legislature, making it eligible for State Flood Control Subventions (reimbursement of 70% of OCFCD expenditures). To date, the OCFCD has spent approximately \$185 million, submitted over \$119 million in claims for reimbursement, and has received approximately \$49.87 million. The State currently has \$21 million budgeted to reimburse OCFCD for this project. This money will be disbursed to the OCFCD as claims are reviewed and approved by the State Department of Water Resources.

Department Focus

County Strategic/Financial Plan

On May 12, 1998, the Board of Supervisors approved the first Strategic Financial Plan ("Plan") which is a document that provides an organized approach to financial planning for the future. The Plan represents another step on the County's path towards continued success through fiscal responsibility, accountability, and efficiency. The Plan is the culmination of an intensive operational financial planning process which incorporated the talents of local government, education and the business community to identify financial priorities, forecast revenues and expenses, and develop a balanced five year financial outlook.

The Plan represents a departure from past practices, which focused solely on annual requirements, without understanding the longer-term financial context. The Plan provides a framework for the annual budget process, enabling annual funding decisions to be made with the knowledge and benefit of a more comprehensive, long-term perspective.

The Plan meets six major objectives:

1. Demonstrates the financial viability of the County;
2. Identifies potential financial challenges;
3. Identifies funding alternatives for Strategic Priorities;
4. Provides a financial basis for program and infrastructure decisions;
5. Improves the County's investment grade rating; and
6. Provides a framework for future budget policies.

The Plan's current fiscal strategy includes funding for the following Strategic Priorities: continued commitment to early bankruptcy debt repayment; funding of the Theo Lacy Jail expansion, Phase II; setting aside monies which could be used for a future South Court facility; funding a program to address work force needs; participation in Economic Development/Business Retention and Tourism programs; and funding a program to address deferred maintenance and compliance with the Americans with Disabilities Act (ADA).

The FY 1998-99 Budget incorporates appropriations for the Strategic Priorities approved by the Board of Supervisors, and will be updated annually to address revised revenue and expense projections. The next update is targeted for late December 1998.

Financial Information

Management of the County of Orange is responsible for establishing and maintaining internal control designed to ensure that the assets of the County are protected from loss, theft, or misuse, and to ensure that adequate accounting data are compiled to allow for the preparation of financial statements in conformity with generally accepted accounting principles. Internal control is designed to provide reasonable, but not absolute, assurance that these objectives are met. The concept of reasonable assurance recognizes that the cost of a control should not exceed the benefits likely to be derived from it. The evaluation of costs and benefits requires estimates and judgments by management.

Single Audit

As a recipient of Federal and State financial assistance, the County is also responsible for ensuring that adequate internal control is in place to ensure compliance with applicable laws and regulations related to those programs. Internal control is subject to periodic evaluation by management and the Internal Audit Department.

As part of the County's single audit, described earlier, tests are made of the County's internal control and of its compliance with applicable laws and regulations, including those related to federal awards. The County's single audit for the fiscal year ended June 30, 1998 is in process.

Budgetary Controls

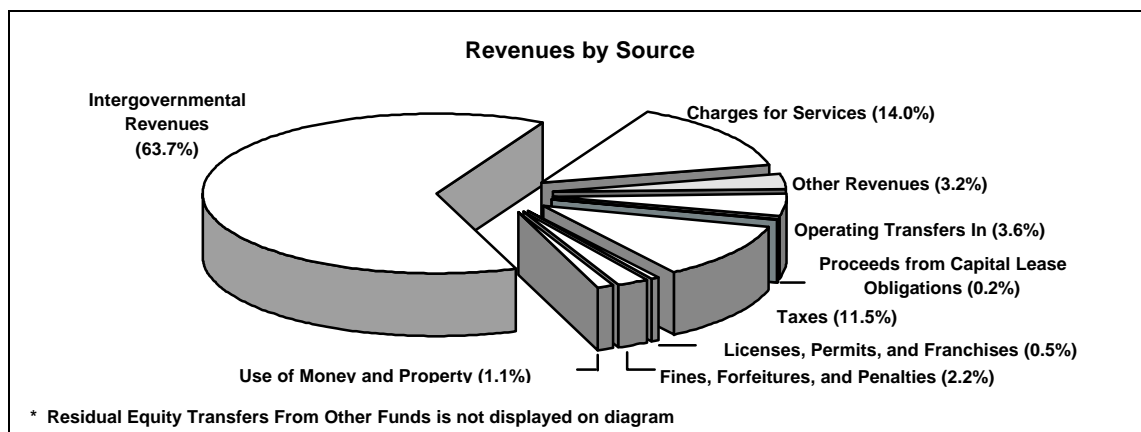
The County of Orange maintains budgetary controls to ensure compliance with legal provisions embodied in the annual appropriated budget approved by the Board. Activities of the General Fund and most of the Special Revenue, Debt Service, and Capital Projects Funds are included in the annual appropriated budget. The level of budgetary control (that is, that level which cannot be exceeded without action by the Board) is the fund-agency unit level, which represents a Department or an Agency. The County of Orange also maintains an encumbrance accounting system as one technique of accomplishing budgetary control. Encumbered appropriations do not lapse at year end; encumbrances outstanding at that time are reported as reservations of fund balance for the following year's budget.

General Government Functions

The following schedule presents a summary of General Fund Revenues, Other Financing Sources, and Residual Equity Transfers From Other Funds for the fiscal year ended June 30, 1998 and increases and decreases in relation to prior year amounts (in thousands).

Source	1997-98 Amount	Percent of Total	Increase (Decrease) from 1996-97	Percent of Increase (Decrease)
Revenues				
Taxes	\$ 168,142	11.5%	\$ 9,360	5.9%
Licenses, Permits, and Franchises	6,642	0.5	254	4.0
Fines, Forfeitures and Penalties	31,588	2.2	14,791	88.1
Use of Money and Property	16,621	1.1	2,043	14.0
Intergovernmental Revenues	931,203	63.7	7,135	0.8
Charges for Services	205,329	14.0	(45,189)	(18.0)
Other Revenues	47,263	3.2	(38,261)	(44.7)
Other Financing Sources				
Operating Transfers In	52,634	3.6	5,339	11.3
Proceeds From Capital Lease Obligations	3,234	0.2	3,234	--
Residual Equity Transfers From Other Funds	36	0.0	36	--
Total	\$ 1,462,692	100.0%	\$ (41,258)	

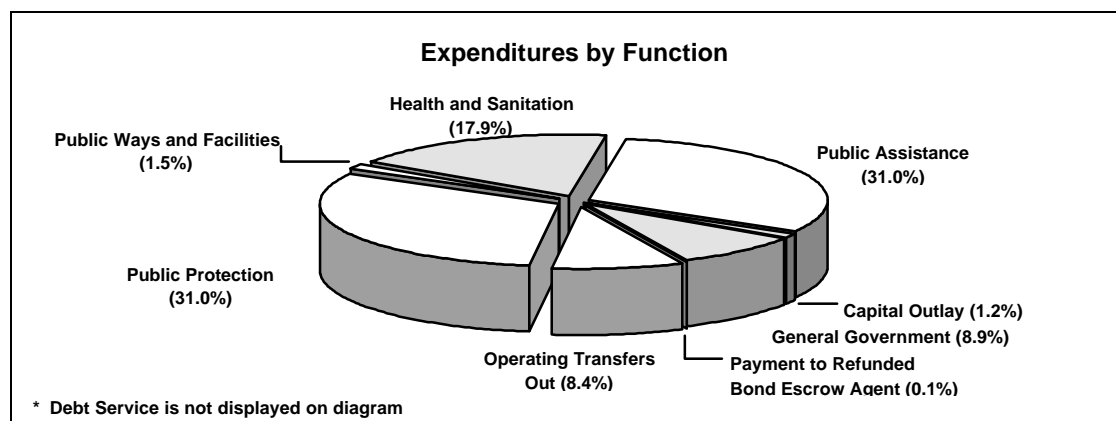
The increase in Fines, Forfeitures, and Penalties is due primarily to the addition of the Trial Courts agency to the General Fund. As a result of Assembly Bill 233, the Trial Courts agency was established for the purpose of collecting and retaining court fines and penalties in the General Fund. These proceeds are remitted to the State to fund the Trial Court's operations. The increase is also attributable to the collection of the County's share of the Merrill Lynch settlement of criminal charges with the District Attorney and to the additional collection of delinquent property tax penalties from the secured and unsecured property tax rolls. The decrease in Charges for Services is due primarily to the restructuring of the Environmental Management Agency in FY 1996-97, which resulted in the revenues previously recorded in this agency being recorded in Special Revenue Funds. This decrease was partially offset by an increase in revenues collected for Court-related services in the Trial Courts agency. The decrease to Other Revenue is due to the County General Fund no longer classifying charges to departments and agencies for the portion of retirement costs that are funded from the Investment Account held by the Orange County Retirement System (OCERS) as revenues; rather, the fund now offsets these charges against the retirement expense charged to departments and agencies. The increase in Operating Transfers In is due to one-time transfers of bankruptcy-related funds from recovery financing funds into the General Fund in FY 1997-98 to reimburse the General Fund for various bankruptcy-related claim stipulations paid in excess of available pre-petition cash, under the County's Modified Second Amended Plan of Adjustment (the "Plan"). Another reason for the increase in Operating Transfers In is the funding arrangement provided for in the Plan which is also part of the Pension Obligation Bonds (the "POBs") and the 1996 Recovery Bankruptcy Certificates of Participation (the "COPs") indentures. The arrangement provides that excess earnings from interest on reserved POB debt service funds that are not required for debt service on the 1996 Recovery Bankruptcy COPs are to be transferred into the General Fund. Excess earnings were higher in FY 1997-98 than in FY 1996-97.



The following schedule presents a summary of General Fund Expenditures and Other Financing Uses for the fiscal year ended June 30, 1998, and increases and decreases in relation to prior year amounts (in thousands).

Function	1997-98 Amount	Percent of Total	Increase (Decrease) from 1996-97	Percent of Increase (Decrease)
Current Expenditures				
General Government	\$ 127,457	8.9%	\$ 24,086	23.3%
Public Protection	444,780	31.0	(10,828)	(2.4)
Public Ways and Facilities	21,515	1.5	21,515	--
Health and Sanitation	257,661	17.9	9,631	3.9
Public Assistance	444,671	31.0	(37,409)	(7.8)
Capital Outlay Expenditures	16,734	1.2	5,441	48.2
Debt Service Expenditures	520	--	(439)	(45.8)
Other Financing Uses				
Operating Transfers Out	121,347	8.4	(65,160)	(34.9)
Payment to Refunded Bond Escrow Agent	1,500	0.1	1,500	--
Total	<u>\$ 1,436,185</u>	<u>100.0%</u>	<u>\$ (51,663)</u>	

The increase in General Government expenditures is due primarily to the reclassification of payments to the Courts from Operating Transfers Out to Contributions to Non-County Governmental Agencies and to the County's restructuring which shifted many positions from General Services Agency (GSA), Human Resources, and the Environmental Management Agency (EMA) to the County Executive Office. As part of restructuring, GSA and EMA were dissolved. GSA was previously reported within General Government and EMA was previously reported within Public Protection. The increases in expenditures were partially offset by the closing of GSA from the General Fund. The increase in Public Ways and Facilities expenditures is due to restructuring which created a new agency, the Public Facilities and Resources Department (PFRD) in the General Fund. PFRD took over a variety of functions formerly performed by GSA and EMA, and the primary function of the new agency is Public Ways and Facilities. The decrease in Public Assistance expenditures is due primarily to a reduction of caseloads in the California Work Opportunity and Responsibility to Kids (CalWorks) Family Grant/Unemployed Agency for family assistance payments. The reduction in caseloads is a result of recent welfare reforms and improved economic conditions in Orange County. This decrease was partially offset by an increase in the Social Services Agency for the cost of welfare fraud investigative services provided by the District Attorney. The decrease in Operating Transfers Out is mainly due to the elimination of operating transfers from the General Fund to the Trial Court Operations Fund as a result of the implementation of Assembly Bill 233, which provided for State funding of Trial Courts to take the place of direct County funding in FY 1997-98. In FY 1996-97, the County made operating transfers directly from the General Fund to the Trial Court Operations Fund.



The fund balance of the General Fund increased by approximately \$26 million (19.4%) during the year ended June 30, 1998.

Appropriations Limit

Article XIII B of the California Constitution, as amended by Proposition 111, approved by the voters in June 1990, limits appropriations from the proceeds of taxes. Appropriations are limited to the prior year's amount adjusted by a factor based on population growth and increases to personal income or non-residential assessed value. Proposition 111, in addition to providing greater flexibility in the computation of increases to the appropriations limit, exempts from the limit certain appropriations for fixed assets. The County does not believe it is in danger of reaching its limitation in the next several years.

Enterprise Operations

Airport

John Wayne Airport (JWA) operations are accounted for in an Enterprise Fund. JWA provides commercial air travel, air cargo, and general aviation services. JWA experienced a decrease of 1.6% in total passenger traffic from FY 1996-97. The decrease had no significant impact on JWA operating revenues, which remained consistent with the prior year. Operating income at JWA is sufficient to enable the Enterprise Fund to continue servicing debt and meeting operating costs without support from the County General Fund.

Waste Management

Integrated Waste Management Department (IWMD) operations are accounted for in an Enterprise Fund. IWMD continued to operate three waste disposal sites during the year ended June 30, 1998. Fees charged to waste disposal site users are IWMD's primary source of revenue. The results of operations continue to reflect a strong operating income which will allow IWMD to continue to service debt and meet operating costs without support from the County General Fund. The County continues to import waste at the Olinda Alpha, Prima Deshecha, and Frank R. Bowerman landfills in an effort to provide the County General Fund with monies to assist in the bankruptcy recovery.

Debt Administration

At June 30, 1998, the County had a number of debt issues outstanding. Under current State statutes, the County's general obligation bonded debt issues are subject to a legal limitation based on 1.25% of the total assessed value of real and personal property. As of June 30, 1998 the County had no net general obligation bonded debt. The County's legal debt limit was \$2,278,554,000.

Cash Management

Cash temporarily idle during the year was invested in the Orange County Treasurer's Money Market Commingled Investment Pool. The Treasurer maintains two separate investment pools, the Orange County Treasurer's Money Market Commingled Investment Pool (County Pool) and the Orange County Treasurer's Money Market Educational Investment Pool (Educational Pool), which is utilized exclusively by the county's school districts. The investment of the County and Educational Pools' is governed by California Government Code and the Treasurer's Investment Policy Statement (IPS) for the Money Market Investment Pool. The IPS is submitted annually to the Treasury Oversight Committee and the Board of Supervisors and authorizes investments in the following categories: U.S. Government securities, securities of federally sponsored agencies, domestic commercial paper, negotiable certificates of deposit, repurchase agreements, bankers' acceptances, money market mutual funds, State of California or California Municipal debt, receivable-backed securities, and medium-term notes. The IPS prohibits borrowing for investment purposes, reverse repurchase agreements, and volatile structured notes and derivatives. The maximum allowable maturity of any portfolio instrument is 13 months and the average maturity of all portfolio instruments, on a dollar-weighted basis, will not exceed 90 days. Investments are marked to market on a daily basis. If the net asset value of either the County Pool or the Educational Pool is less than \$.995 or greater than \$1.005, portfolio holdings may be sold as necessary to maintain the ratio between \$.995 and \$1.005.

In addition to "Pooled Cash/Investments," the Treasurer maintains individual specific investments for certain funds which comprise a small portion of the total investments managed by the Treasurer. The permitted investments for these funds are dictated by operation of Federal or State statute, bond documents, and by mutual agreement with the investing entity.

The County's deposits are either insured by Federal depository insurance or are collateralized with securities having a market value of at least 110 percent of the deposits in accordance with Section 53652 of the California Government Code. Collateral of 150 percent is required if a deposit is secured by first mortgages or first trust deeds upon improved residential real property located in California. Portfolio investments, other than money market mutual funds, are held by a third party custodian in the County's name and are classified in the category of lowest custodial credit risk as defined by the Governmental Accounting Standards Board.

At June 30, 1998, the weighted average maturity of the County Pool was 86 days and the Educational Pool was 87 days. The average daily investment balance of the County Pool and the Educational Pool amounted to \$1.60 billion and \$.84 billion with an average effective yield of 5.79% and 5.84%, respectively, for the fiscal year ended June 30, 1998.

Risk Management

The County of Orange has maintained a formal risk management program since the mid 1970's. Risk Management functions include risk identification, measurement, avoidance, loss prevention and mitigation programs, liability transfer (by contract and commercial insurance), risk retention, managing claims and litigation.

Resources are budgeted in the Workers' Compensation and Property, Casualty and Risk Internal Service Funds to pay program costs including losses, expenses and administration costs. Commercial insurance coverage is purchased for the County's property and for certain specialized liability exposures such as airport, helicopter, watercraft, business interruption, crime bond, and notary bonds. All other liability exposures, including general, auto, and workers' compensation, are self-insured. Excess coverage for liability and workers' compensation has also been purchased. Various risk control techniques, including employee accident prevention training and regular work-site inspections, have been implemented to minimize losses. Actuarial studies are performed annually to determine the funding requirements for these activities. These studies have taken the impact of the bankruptcy into account.

Other Information

Independent Audit

The general purpose financial statements have been audited by the independent certified public accounting firm of Macias, Gini & Company LLP. In addition to meeting the requirements set forth in State statutes, the audit was also designed to meet the requirements of the Federal Single Audit Act Amendments of 1996 and the Office of Management and Budget Circular A-133, "Audits of States, Local Governments and Non-Profit Institutions." The independent auditor's report, on the general purpose financial statements and the supplemental combining, individual fund and account group financial statements and schedules, is included in the Financial Section of this report.

The independent auditor's report includes a scope limitation with respect to the County's disclosures regarding Y2K. The disclosures are required by the GASB TB No. 98-1, which took effect for financial statements with an auditor's report dated after October 31, 1998. Although the County's disclosures comply with the GASB TB No. 98-1, and reflect considerable progress in implementing Y2K solutions, there is insufficient audit evidence for the auditors to evaluate and verify the County's disclosures and progress in implementing Y2K solutions. This is a situation that is expected to also affect other local governments that issue financial statements with an auditor's report dated after October 31, 1998.

The County believes that the scope limitation in the auditor's report does not make its financial statements less accurate or less reliable than financial statements of other local governments that were issued with an auditor's report dated before November 1, 1998, and do not contain the scope limitation. On the contrary, our financial statements contain considerable information on Y2K because we have implemented the disclosure requirements of the GASB TB No. 98-1.

The auditor's reports related specifically to the Single Audit will be included in separate publications.

GFOA Award

The Government Finance Officers Association (GFOA) awarded a Certificate of Achievement for Excellence in Financial Reporting to the County of Orange for its Comprehensive Annual Financial Report (CAFR) for the fiscal year ended June 30, 1997. The Certificate of Achievement is the highest form of recognition for excellence in state and local government financial reporting.

In order to be awarded a Certificate of Achievement, a government unit must publish an easily readable and efficiently organized CAFR, whose contents conform to program standards. Such a CAFR must satisfy both generally accepted accounting principles and applicable legal requirements.

GFOA's Special Review Executive Committee, which is responsible for overseeing the operations of the Certificate Program, has announced that governments will suffer no adverse consequences in the Certificate program as a result of their compliance with GASB TB No. 98-1, even should that compliance result in a qualified audit opinion (scope limitation).

A Certificate of Achievement is valid for a period of one year only. We believe our current report continues to meet the Certificate of Achievement Program's requirements, and we are submitting it to the GFOA to determine its eligibility for another certificate.

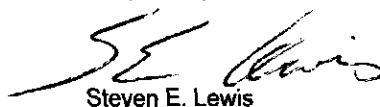
County of Orange Website

The County of Orange Internet Site at <http://www.oc.ca.gov> provides the citizens of Orange County, and everyone with Internet access, extensive information about Orange County's government and the region. The site receives over one and a half million hits per month and contains approximately seventy thousand documents online. Information that can be accessed on the County's website includes access to all Board of Supervisors' Offices and e-mail, Board Agendas, County Job Listings, Purchasing Bid Solicitations, Financial Information, County Directories and General Information, Assessment Appeals, Court Information, Local Court Rules, Voter Information, County Forms, and much more. In addition, the County's website also provides several online services such as ordering birth, death and marriage certificates online, performing a Fictitious Business Name Search, and looking up election polling places. The County plans to improve the website by increasing each citizen's ability to conduct business online with the County.

Acknowledgments

I would like to express my sincere appreciation to the staff from my office, other County departments, and the staff of the certified public accounting firm of Macias, Gini & Company LLP for making possible the timely presentation of this Comprehensive Annual Financial Report. I hope this report will be of interest and use to those in county government, other governmental agencies, and the public interested in the financial activity of the County of Orange.

Respectfully submitted,



Steven E. Lewis
Auditor-Controller